

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

C.L. "Butch" Otter, Governor  
Wayne L. Hammon, Administrator

Michael H. Ferguson, Chief Economist  
Derek E. Santos, Economist

DIVISION OF FINANCIAL MANAGEMENT

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This *Idaho Outlook* provides some perspective on the severity of the expected national economic slowdown. The current weaknesses in the economy along with the turmoil in the financial markets have led some to compare it to the Great Depression. These comparisons are expected, **but they are not realistic.** It has been said that if a recession is a cold, then a depression is pneumonia. The Great Depression lasted just over three and one-half years, which was about four times longer than the average recession since World War II. During the Great Depression one out of every four workers was unemployed. For nearly eight decades after the Great Crash, the U.S. has not come close to repeating this economic catastrophe and is not expected to in the next few years.

In its November 2008 U.S. Economic forecast, Global Insight predicted the economy slipped into a recession in the third quarter of 2008. This slowdown is expected to last a year and be followed by a moderate recovery. Specifically, real GDP is projected to shrink 1.5% from its peak to its trough, then expand well below its potential through the first quarter of 2010. The recession and disappointing recovery will exact a huge toll on employment, which is forecast to fall by 2.6 million jobs. The civilian unemployment rate is projected to peak at 8.3% in the second quarter of 2010. Clearly, the predicted recession, while painful, is

nowhere near as severe as the Great Depression.

A better comparison is between the current recession and more recent ones. The first places to look are the 1990-91 and 2001 recessions. In making this comparison it is important to note these were among the two mildest post-war economic slowdowns. Both recessions lasted just eight months. In fact, the only recession that was shorter occurred during the first half of 1980. The 1990-91 recession began in July 1990 and real GDP contracted 1.3%. This recession was followed by a decade of expansion—the longest on record—that ended with the recession of 2001. While the 2001 recession lasted as long as its predecessor, real output decreased just 0.2%. One of the reasons for this milder decline was real output actually expanded slightly in one quarter of the recession. The current recession is expected to be harsher than these two mild ones.

In order to find more apt comparisons, we must go further back to the 1973-75 recession. This contraction was the longest post-war recession, which lasted five quarters. During this period, real output dropped 3.1%. One similarity shared by the 1973-75 and current recession is high energy prices. However, there is a key difference between the two. In the 1973-75 recession higher energy prices resulted from tight oil supplies. Thus, even though the economy slumped, energy prices

remained relatively high. The more recent bout of high energy prices resulted from strong demand. As such, they have eased as global economies have slumped. This is a huge relief to consumers. For example, it has been estimated the recent drop in gasoline prices alone is equivalent to a \$185-billion tax cut for U.S. consumers.

The 1980 recession is harder to classify. By one measure it was the mildest recession in recent years and another measure shows it was harsher. This recession was just one-half year long, but real output declined 2.2%, which was steeper than in either the 1990-91 or 2001 recessions. Another interesting point is while this was the shortest, so was its recovery. The expansion between its trough and the next peak was just one year. It is no wonder the 1980 and 1981-82 slowdowns are sometimes referred to as the back-to-back (or double-dip) recessions. Of these two slowdowns, the 1981-82 recession was clearly the worst. It lasted 16 months and real output contracted 2.6%.

So how does the current recession stack up? Those hoping for a mild downturn like the 1990-91 and 2001 recessions will be disappointed. It is anticipated the current recession will be harsher than those two. On the bright side, it should be milder than the 1973-75, 1980, and 1981-82 recessions.

# Idaho General Fund Update

As of October 31, 2008

\$ Millions			
Revenue Source	FY 2009 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,334.7	380.7	374.0
Corporate Income Tax	150.2	40.4	47.6
Sales Tax	1,134.0	405.5	395.0
Product Taxes <sup>1</sup>	29.7	11.0	11.0
Miscellaneous	117.7	32.5	32.1
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,766.3</b>	<b>870.1</b>	<b>859.7</b>
<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes <sup>2</sup> May not total due to rounding <sup>3</sup> Revised Estimate as of August 2008			

Overall General Fund revenue collections were lower than expected in October, coming in \$12.8 million below the amount predicted for the month. This brings the fiscal year-to-date result to \$10.3 million (-1.2%) behind expectations. The majority of October's weakness was from the sales tax, but this was compounded by a large increase in individual income tax refunds relative to expectations for the month.

Individual income tax collections were \$6.9 million lower than expected for the month. This brings the fiscal year-to-date result to a level that is \$6.7 million lower than expected. There was good news in this revenue category in October, with filing collections exceeding expectations by \$4.5 million. Unfortunately, this was swamped by refund payments that were \$9.4 million higher than expected for the month. Withholding collections were \$2.1 million lower than expected for the

month, and are \$10.3 million (-2.8%) below expectations for the fiscal year to date. On a year-over-year basis, withholding collections for the first four months of FY 2009 are down 2.0%, versus growth of 0.9% that was expected.

The corporate income tax had its fourth-straight month of higher-than-expected revenue in October, coming in \$1.8 million above the predicted amount for the month. This brings the fiscal year-to-date excess to \$7.2 million. The corporate income tax remains the sole revenue category that is ahead of expectations for the fiscal year to date. The strength is due to estimated payments that are \$8.7 million ahead of the predicted amount for the fiscal year to date, offset by filing payments that are \$1.6 million lower than expected.

Sales tax revenue extended its string of underperformance in October, coming in \$7.6 million lower than

expected for the month and now standing \$10.5 million below expectations for the fiscal year to date. October was a singularly punishing month, with an *expected* year-over-year gross collection decline of -3.6% being trounced by an *actual* decline of -10.1%. On a year-to-date basis, sales tax gross collections were expected to be down by -4.1%, but are actually down by -6.4%. It is important to remind readers that October sales tax collections reflect September retail activity. Recent developments in the financial markets and the broader economy suggest that a quick recovery in sales tax collections is increasingly unlikely.

Product taxes were again on target in October, leaving the fiscal year-to-date result at dead even. Miscellaneous revenue was a tiny \$0.1 million lower than expected for the month, and stands \$0.4 million below the amount expected for the fiscal year to date.

